



U.S. Small Business
Administration



DEVELOPING INDIRECT RATES / MULTIPLIERS



Sponsoring Organization:
U S Small Business Administration (SBA)

PRESENTER:
RUFFIN CONSULTING
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SYLLABUS

11:00 – 11:05

Intro – Opening Remarks

11:05 – 11:15

Accounting System Requirements for Proper Estimating and Bidding

11:15 – 11:25

Determining Proper Allocation Base

11:25 – 11:40

Reasons for Developing Indirect Rates

Developing Indirect Rates / Overhead Rates / Multipliers

11:40 – 11:50

Questions and Answers



INTRODUCTION

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Learning Goal – What should trainees expect from participation?

- *An understanding of the nature and purpose of developing Indirect Rates / Multipliers.*

Learning Objective – What should participants be able to do?

- *How to start the process of developing Indirect Rates.*

ACCOUNTING SYSTEM REQUIREMENTS FOR PROPER ESTIMATING & BIDDING

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- GAAP/Accrual Basis
- Direct costs
- Indirect Costs
- Allocation Base
- Job Cost Ledger
- Timekeeping
- Segregation of Unallowable Costs
- Cost by Contract Line Item
- Limitation of Costs
- Billing



ACCOUNTING SYSTEM REQUIREMENTS FOR PROPER ESTIMATING & BIDDING

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Indirect Cost:

- In general, Indirect Cost accounts fall into two broad categories:
 - Overhead
 - General & Administrative



ACCOUNTING SYSTEM REQUIREMENTS FOR PROPER ESTIMATING & BIDDING

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Indirect Cost:

- The term indirect cost covers a wide variety of cost categories and the costs involved are not all incurred for the same reasons.
- The number of indirect cost accounts in a single firm can range from one to hundreds.
- The indirect structure needs to be tailored to your company and how it operates.

ACCOUNTING SYSTEM REQUIREMENTS FOR PROPER ESTIMATING & BIDDING

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General and Administrative:

These are Business Office costs related to running the business.

Examples include:

- Office Expenses
- Rent
- Utilities
- Office Salaries
- Officer Salaries
- Marketing
- Travel



DETERMINING PROPER ALLOCATION BASE

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Allocation Base:

- Indirect costs should be allocated based on benefits accrued to intermediate and final cost objectives.
- Allocation base must be reasonable.
- There must be a **Causal/Beneficial** relationship between the selected allocation base and the pool costs.
- For example, training costs in the overhead pool are not necessarily caused by a particular cost objective, but the cost objectives might benefit from the training of employees. In that case, training would be related and benefit the labor dollars incurred on contracts/final cost objective.

REASONS FOR DEVELOPING INDIRECT RATES

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1. Assist in Bid/No Bid Decision
 - Competitor price comparison a major consideration
2. Negotiating and Certifying Costs (FAR 15.408)
 - Customers & Primes may require supporting cost and pricing data
3. Support Major Change Orders and Claims
 - Major change orders become negotiated contracts
 - Claims must be supported and in compliance with FAR

Note: TINA

REASONS FOR DEVELOPING INDIRECT RATES

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4. Develop Pricing Strategies
 - Bidding new business with available resources
 - Break-even analysis
5. Monitoring and Reporting Actual Cost Incurred (**Most Important**)
 - Requires implementation of job estimating and job costing systems
 - Can take required corrective actions while Job-in-Progress (JIP)
 - Can make future marketing decisions related to job profitability
 - Perform estimate vs. actual analysis

Indirect Rates / Multipliers

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Sample Company Indirect Rates / Multipliers:

- Indirect Rates – Example (Exhibit)
- Calculating Multipliers (Exhibit)



Questions?????



CONTACT INFORMATION

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